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crows nest
industries limited
75th annual report 1971



1971



**CROWS NEST INDUSTRIES LIMITED
SEVENTY-FIFTH ANNUAL REPORT**

FOR THE YEAR ENDED DECEMBER 31, 1971

Including Wholly-Owned Subsidiary Companies
Established 1897



Corporate information

OFFICERS

THOMAS F. GLEED, *Chairman*
WILLIAM R. PRENTICE, *President*
M. BRUCE PEPPER, *Vice President and General Manager*
J. J. CRABB, *Vice President, Exploration*
BRIAN C. PINNELL, *Secretary-Treasurer, Comptroller*
JOHN D. SIGALET, *Manager Forest Products Division*

TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY, *Toronto*
BANKERS TRUST COMPANY, *New York*

REGISTRARS

NATIONAL TRUST COMPANY, LIMITED, *Toronto*
MANUFACTURERS HANOVER TRUST COMPANY, *New York*

SHARE LISTING

TORONTO STOCK EXCHANGE — *ticker abbreviation CNC*

AUDITORS

CLARKSON, GORDON & CO., *Calgary*

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
SEATTLE-FIRST NATIONAL BANK

COUNSEL

DAVIS & COMPANY, *Vancouver*
LANE, POWELL, MOSS & MILLER, *Seattle*

HEAD OFFICE

FERNIE, BRITISH COLUMBIA

Crow's Nest Pass Coal Company, Limited.

TREASURER'S CASH STATEMENT TO FEBRUARY 28th, 1898.

Received from the Canadian Pacific Railway Co. under agreement between that Company and B. C. Southern Railway Co.

RECEIPTS.

DISBURSEMENTS.

Paid for Machinery and Plant
Salaries
fees on Charter and advertising Notices of Application
Temporary loan (Government deposit for Charter)

| | |
|-------------|-------------|
| \$85,000 00 | |
| \$2,526 80 | |
| 1,540 00 | |
| | 1,176 70 |
| 63 79 | |
| 550 00 | 613 79 |
| 1,484 16 | |
| 1,334 96 | 2,819 12 |
| 861 29 | |
| 322 54 | 1,183 83 |
| | 1,161 40 |
| | 1,048 60 |
| | 1,089 84 |
| | 261 67 |
| | 1,168 02 |
| | 14,589 77 |
| | \$70,410 23 |

Seventy-five Year Highlights 1897 - 1971

| | |
|---|-------------|
| | \$ |
| Net Income (after income taxes) | 25,327,817 |
| Dividends Paid | 23,274,367 |
| Workmen's Compensation | 7,794,269 |
| Stumpage and Royalties | 3,373,634 |
| Provincial and Municipal Property Taxes | 6,552,114 |
| Wages and Salaries | 161,277,480 |
| Income Taxes | 8,419,334 |
| Fixed Assets (Plant and Equipment) | 36,176,333 |
| Rail Freight Costs | 111,263,711 |

STATEMENT, FEBRUARY 28th, 1898.

ASSETS.

Crow's Nest Pass and district, owned in part under Agreement between Canadian Pacific Railway Co. and assigned to B. C. Southern Railway Co.

REPORT.

As Manager on October 30th last, I proceeded to spend two weeks there purchasing necessary equipment of about \$6,800 f.o.b. at British ports. In inspecting some of the principal mines in the district at Connellsville. The result of all this work for coking and general purposes is that in both countries to whom I submitted the various modern systems of electric plant at your mines for all available. On your subsequently approving of necessary plant to the value of \$12,000, coking and loading plant has been purchased for \$2,000. All these will be shipped to the mines by the 22nd. I found that a second seam of the creek and development was produced thorough test, I decided that it would serve both seams. This will involve the control of two seams and generally the quality of the coal is not so good as the No. 1, and being mixed with No. 2, the thorough test of this under my own analysis of Mr. Hersey, Analyt-

As we should be ready to ship coal at the rate of 200 tons a day by April 1st. I fear, however, we shall not have an outlet for several months later; meanwhile I have regulated the strength with due regard to the costly conditions now existing; on these lines the capacity of the mine will be 500 tons a day by the end of the summer, and 1,000 tons a day by the end of the year if required. If the railway is completed not later than June we shall be able to place coke on the market next autumn.

It will not be practicable to erect a miners' village or town up Coal Creek at or near the mines, and with your approval a good site has been decided upon at the junction of Coal Creek and the Elk River, to be named Fernie. As soon as the weather permits, the necessary survey and clearing will be made and building commenced. There are already numerous applications for lots and I have no doubt a considerable town can be built up there. I would recommend a long lease in place of an absolute sale of the lots as enabling you to retain some control over the place.

To my original estimate of approximately \$150,000 as the capital required for developing and equipping (and furnishing 50 coke ovens must now be added the following items:-

1. Additional cost of obtaining supplies and extended capital outlay through 4 months delay in completing railway \$20,000
2. Electrical plant and machinery sanctioned by Directors but not in original estimate 7,000
3. Cost of connecting No. 2 Seam with the screening plant 3,000

This brings the capital outlay to \$180,000, the whole of which will be required by the end of the present year at the rate of about \$15,000 a month after April; for the next two months about \$10,000 will be required for all purposes. This total capital outlay will have an offset in the stock of coal now being produced from the opening up of the seams. I estimated the quantity at 10,000 tons by the time the railway reaches the mine, and at the low value of \$1.50 a ton this would give \$15,000. There should also be a yield of say \$5,000 from the sale of lands this season. I would impress upon you the urgency of railway completion, and also of making some arrangement whereby we can ship coal and coke into Montana as soon as possible, as the delay in establishing railway communication with West Kootenay will render us more dependent than ever on the former market.

MONTREAL, 4th March, 1898.

I am, Gentlemen, yours faithfully,

W. BLAKEMORE,
General Manager.

SON,
Treasurer.

The Crow's Nest Pass Coal Company, Limited.

THE DIRECTORS' REPORT FOR THE ANNUAL MEETING, 1898.

To the Shareholders of THE CROW'S NEST PASS COAL COMPANY, Limited.

GENTLEMEN:—

In presenting this their first Annual Report to the Shareholders, the Directors have to report as follows:—
This Company was incorporated under the name of the Kootenay Coal Company, Limited, and concurrently with the issue of Letters Patent of Incorporation the Company acquired the assets of the B. C. Coal, Petroleum and Mineral Company, Limited Liability, upon terms set out in an Agreement between the two Companies filed in the office of the Secretary of State of Canada as required by law. Some weeks later an agreement was completed between this Company, the B. C. Southern Railway Company and Sir William Van Horne and others, which among other things provided for the payment to this Company of \$85,000 in cash, and the conveyance when earned by the B. C. Southern Railway Company of the lands in the First Government Reserve consisting of about 250,000 acres and about 10,000 acres of coal and oil-bearing lands in the Second Government Reserve for the land grant of the B. C. Southern Railway Company—the said Sir William Van Horne and associates also agreeing to build certain branch lines from the main line of the B. C. Southern Railway into the Coal Mines of this Company. This agreement also provided that 50,000 acres of these coal lands shall be conveyed to the Dominion Government, and that six sections of 640 acres each shall be conveyed to the C. P. R. Company.

In the month of August last the payment of \$85,000 was made to this Company and soon after your Directors secured the services of Mr. William Blakemore, lately Mining Engineer for the Dominion Coal Company in Nova Scotia, and Mr. George S. Ramsay, of Denver, Colorado; both men of high professional standing and great practical experience in coal mining, to proceed to the Crow's Nest Pass to examine the Company's property and report to your Directors on the best method of opening it up. Their reports are on the table for the information of the meeting.

In September last your Directors deemed it in your interest to change the name of the Company to The Crow's Nest Pass Coal Company, Limited. Supplementary Letters Patent authorizing the change have since been obtained from the Government and the change was confirmed by the Shareholders at their Special Meeting last October.

In accordance with a recently passed law of British Columbia your Directors have obtained a license from the authorities of that Province authorizing this Company to carry on business there.

The Directors have engaged Mr. William Blakemore, M.E., as General Manager of the Company's mines for the next two years, from 1st January last, and since his engagement he has visited Britain and the United States for the purpose of procuring mining and coking plant and examining the latest systems of coal mining. His report, with particulars of his recent visit to the Company's coal mines, is submitted herewith.

The Treasurer's Report is also submitted herewith.
The progress of the Company's future operations depends so much upon the early completion of the railway that your Directors cannot at the present time do more than say that they hope that by midsummer work will be sufficiently advanced to admit of the Company beginning to market the production of the officers.

The expenditure necessary for opening up the mines, building houses for the accommodation of the officers and miners of the Company, and in providing coke and coal mining machinery and other plant, is very heavy, and your Directors beg to call your attention to the necessity of increasing the funds at their disposal for this purpose at an early date. This may be accomplished by the issue of the debentures of the Company, or by retaining power to increase the capital stock of the Company, or by within a limited number of years.

Dated this 4th March, 1899

J. A. GEMMILL,
Secretary.

GEO. A. COX,
Vice-President.

Crow's Nest Pass Coal Company, Limited.

REPORT FOR SHAREHOLDERS

FOR

1897-98.

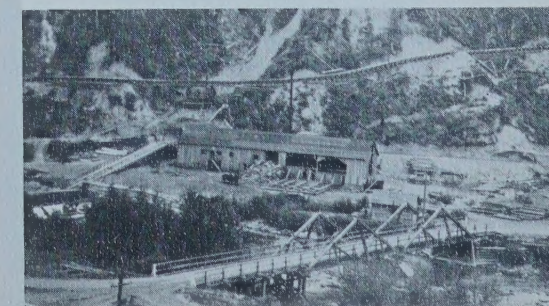
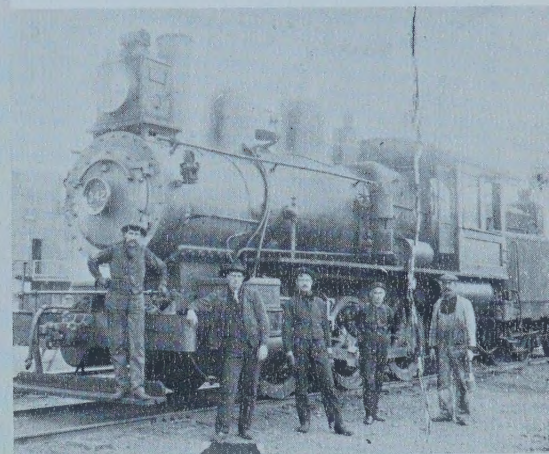
BOARD OF DIRECTORS FOR 1898.

| | |
|--|-------------------|
| LT.-COL. HON. JAMES BAKER, Victoria | President |
| HON. GEO. A. COX, Toronto | Vice-President |
| WILLIAM HANSON, Montreal | Managing Director |
| EDWIN HANSON, Montreal | Treasurer |
| J. A. GEMMILL, Ottawa | Secretary |
| WILLIAM FERNIE, Fernie | Land Commissioner |
| LT.-COL. HON. E. G. PRIOR, M.P., Victoria | |
| ROBERT JAFFRAY, Toronto | |
| JOHN D. CHIPMAN, M.P.P., St. Stephen, N.B. | |
| SAMUEL FINLEY, Montreal | |
| DAVID MORRICE, Montreal | |

HEAD OFFICE: CANADA LIFE BUILDING, ST. JAMES ST.
MONTREAL.

GENERAL MANAGER AT FERNIE, B.C.:
WM. BLAKEMORE, M.E.

The Mortimer Co. Print, Ottawa.





HENRY C. JUDD, Menlo Park
Retired

Board of Directors



JOHN W. PITTS, Vancouver
President, Okanagan Helicopters



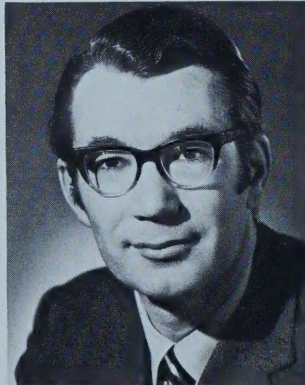
GEORGE V. POWELL, Seattle
Lawyer



THOMAS F. GLEED, Seattle
Chairman



D. E. SKINNER, Seattle
Executive



NEIL B. IVORY, Montreal
*President and Director,
Pembroke Management Ltd.*



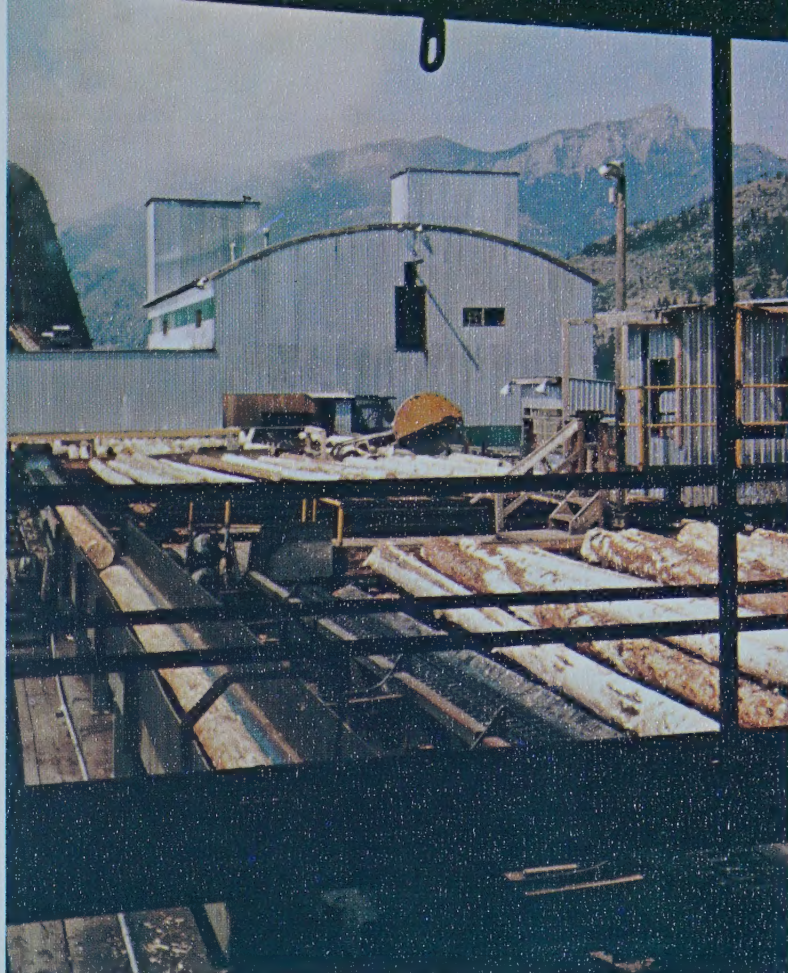
WILLIAM R. PRENTICE, Fernie
President



CLIFFORD L. LAROCK, Montreal
*Chairman and Director,
Pembroke Management Ltd.*



F. DREWE PRATT, Vancouver
Lawyer



Subsidiary Companies

CROW'S NEST PASS ELECTRIC LIGHT & POWER
COMPANY LIMITED
CROWS NEST FOREST PRODUCTS COMPANY LIMITED
THE CROW'S NEST PASS OIL & GAS COMPANY, LIMITED
CROWS NEST PLYWOODS LIMITED
EAST KOOTENAY LUMBER COMPANY LIMITED
E. C. LETCHER LUMBER COMPANY LIMITED
FERNIE EQUIPMENT COMPANY LIMITED
GOLD CREEK TIMBER COMPANY LIMITED
KNIGHT LUMBER COMPANY LIMITED
KOOTENAY AND ELK RAILWAY COMPANY
MORRISSEY, FERNIE & MICHEL RAILWAY COMPANY
ST. MARYS LUMBER CO. LTD.
TRANSPAC CORPORATION

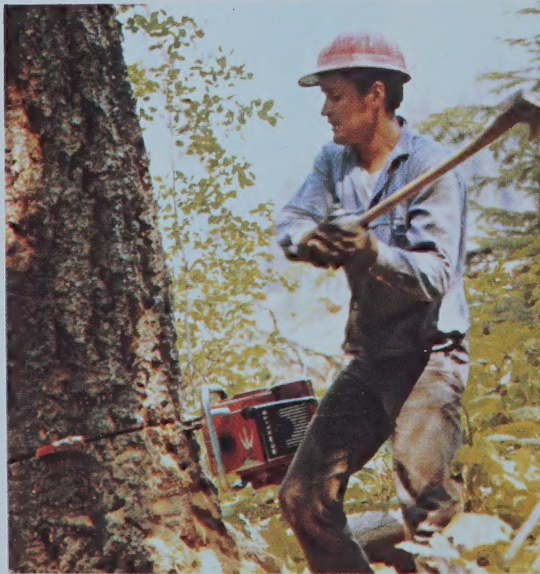
Chairman's Statement to Shareholders

During the transition from mining and processing coal to a total reliance on wood for operating profits, we had an extended period without earnings. During 1971, good markets and the excellence of our facilities provided earnings of \$1,186,371, not only justifying our programming the past several years, but establishing the best annual operating profit in our 75-year history.

We have been restructuring our management team and after a year of operating experience, are fully satisfied with the results.

Mr. M. B. Pepper as Vice President and General Manager has developed a group of cost-conscious executives. Among the most significant changes in personnel were the appointments of Brian C. Pinnell, Secretary-Treasurer, John D. Sigalet as Manager Forest Products Division and J. J. Crabb as Vice President-Exploration.

We are most fortunate in the addition to our board during the year of Mr. Clifford L. Larock, Chairman and Director of Pembroke Management Ltd.



ANALYSIS OF INCREASE IN WORKING CAPITAL
for year ended December 31, 1971

| | |
|---|---------------------|
| Net Reduction in Bank Loans | \$10,120,099 |
| Increase in Accounts Payable | (80,424) |
| Increase in Accounts Receivable | 483,388 |
| Increase in Inventories | 638,384 |
| Increase in Working Capital | <u>\$11,161,447</u> |

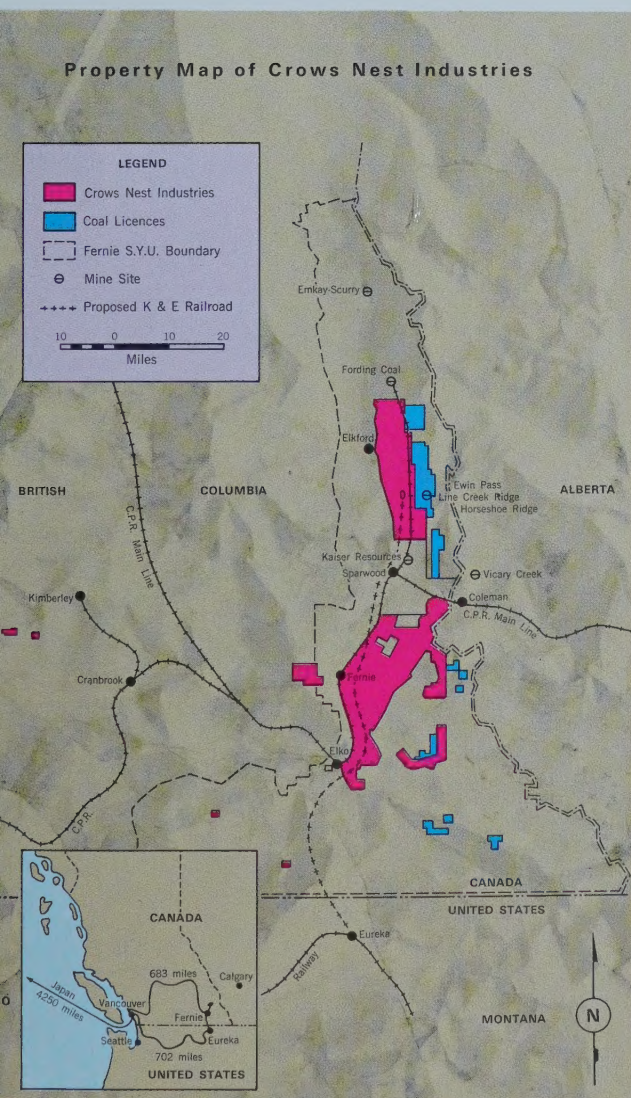
You will note the improvement in our current financial statement reflecting the substantial reduction in bank loans.

At this writing, we are well toward the end of the first quarter of 1972 and find profitable operations continuing. Working capital now exceeds total obligations.

The Crow's Nest Pass Oil & Gas Company Limited, a wholly-owned subsidiary, has enjoyed increasing production and higher market prices for oil and gas and during 1971 had an after-tax cash flow of \$840,000.

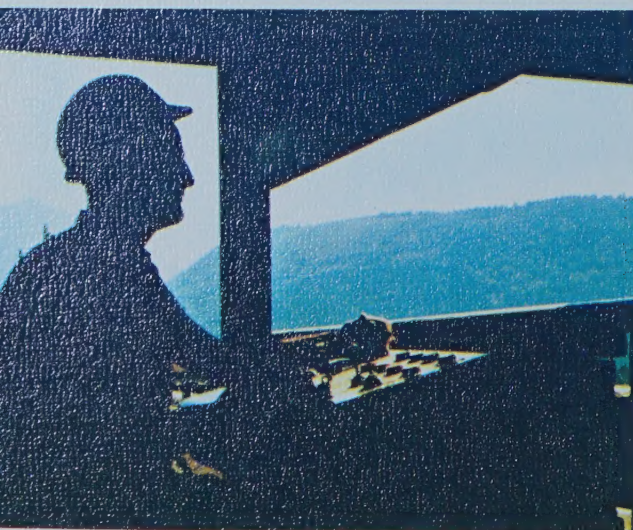
On December 17, 1971, your Company paid a cash dividend of 25¢ per common share.

During 1972, management is continuing to increase manufacturing facilities to make the most economic use of approximately 150-million board feet of timber available to the Company on an annual sustained-yield basis.



STUMPAGE & ROYALTY

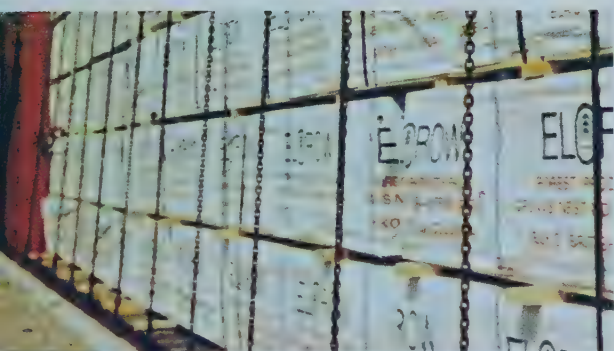
| | |
|---------------------------|--------------------|
| 1897 - 1961 | \$ 602,710 |
| 1962 | 51,778 |
| 1963 | 73,589 |
| 1964 | 67,973 |
| 1965 | 270,517 |
| 1966 | 394,688 |
| 1967 | 157,835 |
| 1968 | 372,556 |
| 1969 | 622,090 |
| 1970 | 263,400 |
| 1971 | 496,498 |
| | <u>\$3,373,634</u> |
| 1972 - Forecast | <u>\$1,430,353</u> |



ANALYSIS OF RETAINED EARNINGS

1897 - 1971

| | | |
|---------------------------------------|--------------|--------------|
| Contributed Surplus 1901 - 1908 . . . | \$ 2,141,250 | |
| Profit from operations to 1971 . . . | 19,298,764 | |
| Extraordinary profits and (losses) | | |
| 1964 | \$ 566,840 | |
| 1965 | 597,035 | |
| 1966 | 85,329 | |
| 1968 | 7,020,125 | |
| 1970 | (2,512,795) | |
| 1971 | 272,519 | 6,029,053 |
| | | <hr/> |
| | | 27,469,067 |
| Dividends 1901 - 1971 | | |
| Cash | 20,216,190 | |
| Stock | 3,058,177 | 23,274,367 |
| | | <hr/> |
| Retained Earnings . . . | | \$ 4,194,700 |
| | | <hr/> |



The substantial reserves of metallurgical and thermal coal on our properties continue to have a most interesting profit potential and reflect thorough research as to volume, quality and mineability. While most of this type of expense is behind us, the values involved continue to command major corporate attention.

Our presently established reserves represent one of the most attractive sources of quality coking coal in western Canada.

April 15, 1972 is our 75th corporate birthday. We have every reason to take great pride not only in what our company is today, but in all of its activities during that period. Probably the best evidence of the continuity of enterprise lies in our having paid cash dividends in 65 out of the 75 years of operations and consecutively since 1918.

While Crows Nest's contributions to its area and the whole of British Columbia have been significant, we feel the greatest opportunities are those which lie ahead.

Thos. F. Gleed

THOS. F. GLEED
Chairman

March 20, 1972

**CROWS NEST INDUSTRIES LIMITED**

(Incorporated under the laws of Canada)

AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES**consolidated balance sheet december 31, 1971 and 1970**

| ASSETS | 1971 | 1970 |
|---|---------------------|---------------------|
| CURRENT: | | |
| Cash and term deposits | \$ 77,509 | \$ 635,410 |
| Accounts receivable | 1,368,787 | 899,785 |
| Inventories valued at the lower of cost and net realizable value | 1,616,581 | 978,197 |
| Prepaid expenses | 60,264 | 45,878 |
| | <u>3,123,141</u> | <u>2,559,270</u> |
| SHARES OF KAISER STEEL CORPORATION (Note 1) | <u>—</u> | <u>9,673,700</u> |
| FIXED, at cost (Note 3): | | |
| Forest products – | | |
| Timber cutting rights, roads and real estate less accumulated depletion of \$1,468,383 (1970 – \$1,202,912) . . | 1,873,565 | 2,122,160 |
| Plant and equipment less accumulated depreciation of \$3,054,193 (1970 – \$2,540,957) | 5,383,904 | 5,815,178 |
| Petroleum and natural gas – | | |
| Acquisition and productive development costs less accumulated depletion of \$2,758,115 (1970 – \$2,675,103) . . | 846,024 | 907,607 |
| Production equipment less accumulated depreciation of \$1,150,807 (1970 – \$1,032,058) | 499,895 | 489,608 |
| Minerals – | | |
| Acquisition, exploration and development costs | 1,599,671 | 1,504,041 |
| | <u>10,203,059</u> | <u>10,838,594</u> |
| OTHER: | | |
| Mortgages receivable | 30,945 | 23,094 |
| Refundable deposits | 150,414 | 60,399 |
| Deferred railway representation costs, etc. | 1,322,011 | 1,189,252 |
| | <u>1,503,370</u> | <u>1,272,745</u> |
| | <u>\$14,829,570</u> | <u>\$24,344,309</u> |

See accompanying notes.

LIABILITIES

| | 1971 | 1970 |
|--|---------------------|---------------------|
| CURRENT: | | |
| Bank loans (secured by accounts receivable and inventories) . | \$ 2,252,000 | \$12,930,000 |
| Accounts payable and accrued charges | 1,400,292 | 1,319,868 |
| | <u>3,652,292</u> | <u>14,249,868</u> |
| DEFERRED INCOME TAXES | 447,575 | 364,633 |
| SHAREHOLDERS' EQUITY: | | |
| Capital (Note 4) | | |
| Authorized – | | |
| 1,187,950 common shares of \$8 par value each | | |
| Issued – | | |
| 745,872 common shares | 5,967,843 | 6,464,243 |
| Contributed surplus (Statement 2) | 567,160 | 567,160 |
| Capital surplus (Note 4) | | 1,300,000 |
| Retained earnings (Statement 2) | 4,194,700 | 2,173,889 |
| | <u>10,729,703</u> | <u>10,505,292</u> |
| Less 62,050 shares of parent owned by subsidiary at cost (Note 4) | <u>–</u> | <u>775,484</u> |
| | <u>10,729,703</u> | <u>9,729,808</u> |
| On behalf of the Board: | | |
| T. F. GLEED, <i>Director.</i> | | |
| F. D. PRATT, <i>Director.</i> | | |
| | <u>\$14,829,570</u> | <u>\$24,344,309</u> |



**consolidated statements of retained earnings and contributed surplus
for the years ended december 31, 1971 and 1970**

| | 1971 | 1970 |
|--|---------------------|---------------------|
| RETAINED EARNINGS | | |
| Balance, beginning of year | \$ 2,173,889 | \$ 8,095,840 |
| Add (deduct): | | |
| Capital surplus transferred on reduction of share capital (Note 4) | 1,300,000 | — |
| Net income (loss) for the year (Statement 3) | 1,186,371 | (5,239,163) |
| Excess of cost over par value of common shares cancelled (Note 4) | (279,084) | — |
| Dividends paid: | | |
| Cash | (186,476) | (109,677) |
| Stock | — | (573,111) |
| Balance, end of year | <u>\$ 4,194,700</u> | <u>\$ 2,173,889</u> |
| CONTRIBUTED SURPLUS | | |
| Balance, beginning of year | \$ 567,160 | \$ 111,625 |
| Excess of assigned value over par value of shares issued as stock dividends | — | 455,535 |
| Balance, end of year | <u>\$ 567,160</u> | <u>\$ 567,160</u> |

See accompanying notes.



consolidated statement of income
for the years ended december 31, 1971 and 1970

| | 1971 | 1970 |
|--|----------------------------|------------------------------|
| Sales: | | |
| Forest products | \$ 7,946,692 | \$ 6,307,031 |
| Petroleum and natural gas | 1,006,625 | 890,694 |
| | <u>8,953,317</u> | <u>7,197,725</u> |
| Operating costs and expenses: | | |
| Forest products | 6,017,800 | 6,911,246 |
| Petroleum and natural gas | 246,289 | 219,546 |
| General and administrative | 591,006 | 761,239 |
| Interest and finance | 392,951 | 1,170,354 |
| Depreciation | 702,950 | 774,682 |
| Depletion | 542,153 | 382,217 |
| Exploration, development and survey | 27,531 | 44,529 |
| Loss on foreign trading (Note 5) | 47,901 | 232,088 |
| | <u>8,568,581</u> | <u>10,495,901</u> |
| Income (loss) before other income | <u>384,736</u> | <u>(3,298,176)</u> |
| Other income: | | |
| Cash payments arising from sale of coal properties in 1968 (Note 2) | 596,443 | 594,149 |
| Miscellaneous | 89,197 | 64,872 |
| Gain on sale of property | 101,465 | 5,850 |
| | <u>787,105</u> | <u>664,871</u> |
| Income (loss) before income taxes | <u>1,171,841</u> | <u>(2,633,305)</u> |
| Income taxes | <u>257,989</u> | <u>93,063</u> |
| Income (loss) before extraordinary items | <u>913,852</u> | <u>(2,726,368)</u> |
| Extraordinary items: | | |
| Sale of mineral exploration rights | 97,199 | — |
| Income tax reduction arising from loss carry forward (Note 6) | 175,320 | — |
| Loss on Kaiser shares | — | (2,512,795) |
| | <u>272,519</u> | <u>(2,512,795)</u> |
| Net income (loss) for the year | <u><u>\$ 1,186,371</u></u> | <u><u>\$ (5,239,163)</u></u> |
| Per share: | | |
| Income (loss) before extraordinary items | \$1.22 | \$ (3.65) |
| Extraordinary items | .37 | (3.37) |
| Net income (loss) | <u><u>\$1.59</u></u> | <u><u>\$(7.02)</u></u> |

See accompanying notes.



**consolidated statement of source and application of funds
for the years ended december 31, 1971 and 1970**

| | 1971 | 1970 |
|---|--------------|----------------|
| Source of funds: | | |
| Net income (loss) for the year | \$ 1,186,371 | \$ (5,239,163) |
| Add charges not requiring an outlay of funds: | | |
| Depreciation and depletion | 1,245,103 | 1,156,899 |
| Deferred income taxes | 82,942 | 32,510 |
| Loss on sale of Kaiser shares | — | 2,512,795 |
| Funds provided from operations | 2,514,416 | (1,536,959) |
| Proceeds from sale of Kaiser shares | 9,673,700 | — |
| Total funds provided | 12,188,116 | (1,536,959) |
| Application of funds: | | |
| Purchase of fixed assets — net | 609,568 | 1,172,862 |
| Deferred railway representation costs, etc. | 132,759 | 403,178 |
| Refundable deposits, etc. | 97,866 | (105,016) |
| Cash dividends paid to shareholders | 186,476 | 109,677 |
| Total funds applied | 1,026,669 | 1,580,701 |
| Increase (decrease) in working capital deficiency | (11,161,447) | 3,117,660 |
| Working capital deficiency, beginning of year | 11,690,598 | 8,572,938 |
| Working capital deficiency, end of year | \$ 529,151 | \$11,690,598 |

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of
Crows Nest Industries Limited.

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1971 and the consolidated statements of income, retained earnings, contributed surplus, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies at December 31, 1971, the results of their operations, and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 22, 1972.

CLARKSON, GORDON & CO.,
Chartered Accountants.



notes to consolidated financial statements december 31, 1971

1. SHARES OF KAISER STEEL CORPORATION

During the year the Company sold its holdings of Kaiser shares for a cash consideration of \$9,673,700. These shares had been received in 1968 as partial consideration for the sale of the Company's coal properties and related assets. Provision for the loss resulting from the sale of the shares was made in the financial statements for the year ended December 31, 1970.

2. PAYMENTS ARISING FROM SALE OF COAL PROPERTIES IN 1968

As part of the consideration for the sale of the Company's coal properties to Kaiser Steel Corporation in 1968, the Company is entitled to receive payments of 50 cents per ton of coal produced and shipped after January 1, 1977 from the properties sold. These payments are limited to an aggregate of \$34 million and will be included in income as received.

In addition, the Company is entitled to receive a series of semi-annual cash payments until February 1, 1973. The amount of each payment is the excess of \$309,421 over cash dividends paid on the 351,351 shares of Kaiser Steel Corporation which were sold by the Company in 1971 (see Note 1). The payments amounted to \$596,443 in 1971 (\$594,149 in 1970) and are included in income in the years to which they apply.

3. FIXED ASSETS

Depreciation is based on the estimated useful lives of the assets and is provided on the straight line method for the new sawmill and the reducing balance method for other plant and equipment.

Depletion is provided on timber cutting rights and oil and gas interests on a unit of production method based on estimated reserves of timber, oil and gas.

4. SHARE CAPITAL

In accordance with a by-law passed by the Directors in 1971 and subject to approval by the Shareholders and the issuance of Supplementary Letters Patent in 1972, the Company's authorized share capital has been reduced by the cancellation of:

- (a) 25,000 3% cumulative redeemable preferred shares of which 13,000 had been issued and redeemed in prior years; and

- (b) 62,050 common shares received by the Company during the year as a dividend from a subsidiary which had acquired the shares in prior years.

Capital surplus in the amount of \$1,300,000 which arose on the redemption of preferred shares in a previous year has been transferred to retained earnings and the common shares acquired as a dividend have been recorded as having been cancelled. Accordingly, the par value of the shares, \$496,400, has been charged to the share capital account and the balance of the cost, \$279,084, has been charged to retained earnings.

5. RECLASSIFICATION OF 1970 FOREIGN TRADING OPERATIONS

In 1970 the Company disposed its foreign trading operations. For comparative purposes the 1970 sales, costs and expenses applicable to foreign trading operations have been combined as follows on the consolidated statement of income:

| | | |
|--------------------------------------|-------------|-------------|
| Sales | | \$5,184,210 |
| Cost of sales | \$5,083,287 | |
| General and administrative | 273,935 | |
| Interest and finance | 59,076 | 5,416,298 |
| Loss on foreign trading | | \$ 232,088 |

The 1971 loss of \$47,901 on foreign trading represents additional costs of the disposal of these operations.

6. INCOME TAXES

Income taxes applicable to income earned in 1971 have been reduced by \$175,320 as a result of applying a portion of operating losses incurred in prior years. Similar income tax reductions of approximately \$1,089,000 are available to be applied against taxes otherwise payable during the years 1972 to 1975 inclusive and will be included in income as extraordinary items as the losses are utilized.

7. STATUTORY INFORMATION— CANADA CORPORATIONS ACT

| | |
|--|-----------|
| Remuneration of nine directors | \$ 11,900 |
| Remuneration of eight officers | \$204,075 |

Two officers are also directors.



nine year summary of comparative highlights

| | 1971 | 1970 | 1969 |
|--|--------------|---------------|--------------|
| Sales of all products | \$ 8,953,317 | \$ 12,381,935 | \$11,189,493 |
| Profit (loss) before extraordinary items | 913,852 | (2,726,368) | (1,515,467) |
| Extraordinary items | 272,519 | (2,512,795) | — |
| Net profit (loss) for year | 1,186,371 | (5,239,163) | (1,515,467) |
| Profit (loss) per common share | | | |
| From operations | 1.22 | (3.65) | (2.07) |
| Extraordinary items | .37 | (3.37) | — |
| Total | 1.59 | (7.02) | (2.07) |
| Common shareholders' equity | 10,729,703 | 9,729,808 | 15,078,648 |
| Equity per common share | 14.39 | 13.04 | 20.62 |
| Cash dividends declared | 186,476 | 109,677 | 548,382 |
| Dividends per common share | 25¢ | 15¢+2%stk | 75¢ |
| Depreciation and depletion | 1,245,103 | 1,156,899 | 862,738 |
| Capital expenditures | 720,271 | 1,261,916 | 5,425,070 |
| Working capital | (529,151) | (11,690,598) | (8,572,938) |
| Production—lumber (fbm) | 92,326,957 | 91,822,345 | 53,823,668 |
| Production—oil (bbls) | 430,732 | 421,398 | 337,463 |
| Production—coal, coke and breeze (tons) | — | — | — |
| Number of employees at year-end | 394 | 420 | 428 |
| Common shares at year-end | | | |
| Number outstanding | 745,872 | 745,872 | 731,175 |
| Percentage held by Canadians | 41% | 41% | 40% |
| Other | 59% | 59% | 60% |
| Number of shareholders at year-end | | | |
| Canadian | 261 | 258 | 255 |
| Other | 222 | 237 | 228 |

The Department of National Revenue has listed for Canadian Income Tax purposes the Valuation Day value of Crows Nest Industries Limited shares as \$26.00.

| 1968 | 1967 | 1966 | 1965 | 1964 | 1963 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| \$12,001,891 | \$15,965,891 | \$14,070,916 | \$13,072,834 | \$ 8,868,843 | \$ 8,580,081 |
| 479,449 | 380,964 | 469,183 | 488,863 | 494,922 | 720,389 |
| 7,020,125 | — | 85,329 | 597,035 | 566,840 | — |
| 7,499,574 | 380,964 | 554,512 | 1,085,898 | 1,061,762 | 720,389 |
| .66 | .52 | .65 | .68 | .69 | 1.01 |
| 9.59 | — | .12 | .83 | .79 | — |
| 10.25 | .52 | .77 | 1.51 | 1.48 | 1.01 |
| 17,142,497 | 10,102,823 | 10,235,615 | 10,146,722 | 9,569,615 | 9,044,193 |
| 23.45 | 13.91 | 14.12 | 14.12 | 13.38 | 12.65 |
| 548,025 | 544,256 | 540,619 | 551,756 | 536,340 | 549,503 |
| 75¢ | 75¢ | 75¢ | 75¢ | 75¢ | 75¢ |
| 637,450 | 1,134,975 | 1,318,585 | 1,184,957 | 795,570 | 773,931 |
| 2,394,660 | 1,089,638 | 1,803,848 | 2,848,548 | 2,518,488 | 510,036 |
| (766,024) | 472,797 | 888,041 | 1,246,482 | 2,192,182 | 2,109,941 |
| 39,489,957 | 47,831,535 | 68,813,323 | 68,375,793 | 24,275,253 | 17,435,569 |
| 205,728 | 191,174 | 170,008 | 182,933 | 224,063 | 230,492 |
| 167,617 | 1,105,387 | 1,009,003 | 924,531 | 978,441 | 902,049 |
| 344 | 818 | 830 | 935 | 823 | 754 |
| 731,175 | 726,550 | 724,675 | 718,425 | 715,120 | 715,120 |
| 26% | 26% | 30% | 24% | 18% | 13% |
| 74% | 74% | 70% | 76% | 82% | 87% |
| 252 | 305 | 364 | 311 | 247 | 201 |
| 261 | 253 | 275 | 314 | 355 | 403 |



crows nest
industries limited
75th annual report 1971